

**Letter Report: Future Internal
Revenue Service Strategic Plans Should
Provide More Information**

May 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

May 21, 2001

MEMORANDUM FOR DEPUTY COMMISSIONER
CHIEF FINANCIAL OFFICER

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Letter Report – Future Internal Revenue Service Strategic
Plans Should Provide More Information

The attached report presents the results of our review of the Internal Revenue Service's (IRS) Strategic Plan for Fiscal Years 2000–2005. In summary, we found that the draft strategic plan generally met the requirements of the Government Performance and Results Act of 1993 (GPRA).¹ However, we believe the IRS can improve future revisions to the plan to meet Office of Management and Budget (OMB) and General Accounting Office guidance and Congressional priorities. We recommended that the plan could better address major management challenges; list IRS plans to ensure managers have all the authority they need to achieve results; fully describe major cross-cutting programs; and better group goals, objectives, strategies, and related performance measures.

In commenting on a draft of this report, IRS management expressed confidence that its Strategic Plan meets or exceeds the requirements of the GPRA and OMB. Because of this position, IRS management does not intend to make any of our recommended changes to its current plan but will consider them when making future revisions. While we agree that the IRS Strategic Plan generally meets the GPRA requirements and OMB guidance, we believe that it is to the IRS' benefit to enhance its plan, particularly as Congressional interest in GPRA issues remains high. Therefore, we strongly encourage the IRS to implement our recommendations in its future revisions to the

¹ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

Strategic Plan. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included in Appendix III.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Objective and Scope

The objective of our review was to conduct a high-level assessment of the Internal Revenue Service's (IRS) "Draft Strategic Plan for Fiscal Years 2000-2005" to determine whether it meets the requirements of the Government Performance and Results Act of 1993 (GPRA),¹ follows Office of Management and Budget (OMB) and General Accounting Office (GAO) guidance, is responsive to Congressional priorities, and is consistent with the Department of the Treasury's Strategic Plan for Fiscal Years 2000-2005.

The scope of our work consisted of reviewing two versions of the Draft Strategic Plan for Fiscal Years 2000-2005 (the later version reviewed was dated January 18, 2001) and reviewing the Department of the Treasury's Strategic Plan for Fiscal Years 2000-2005. The criteria for our review were the GPRA, OMB Circular No. A-11 (2000) Part 2 - Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports, GAO guidance,² and Congressional requests. Our work was performed with the assistance of the IRS' Strategic Planning and Budgeting staff in the National Headquarters and was performed from November 2000 to February 2001, in accordance with *Government Auditing Standards*.

To ensure the IRS could consider our comments before the final strategic plan was issued, we provided our results to the Strategic Planning and Budgeting staff during a conference call on January 24, 2001. We also provided additional information through electronic mail on February 1, 2001. The IRS published its final

¹ Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

² *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review* (GAO/GGD-10.1.16, dated May 1997).

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

strategic plan on February 7, 2001, incorporating some of our suggestions.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

Background

The GPRA was enacted by the Congress in 1993 and is intended to improve the quality and delivery of government services. The GPRA holds federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement.

The strategic planning process is the most important element in ensuring that the GPRA works. As noted by the GAO, “This effort is the starting point and foundation for defining what an agency seeks to accomplish, identifying the strategies it will use to achieve desired results and then determining how well it succeeds in reaching results-oriented goals and achieving objectives. Developing a strategic plan can help clarify organizational priorities and unify the agency’s staff in the pursuit of shared goals.”³

Results

The IRS’ draft strategic plan generally met the requirements of the GPRA. In addition, the plan met most of the OMB and GAO guidance and was consistent with the Department of the Treasury’s Strategic Plan for Fiscal Years 2000-2005. In future revisions to the strategic plan, the IRS should more fully provide the information required.

³ GAO/GGD-10.1.16 - Preface.

**Letter Report: Future Internal Revenue Service Strategic Plans
Should Provide More Information**

**The Strategic Plan Should More Fully Provide
the Information Required**

The IRS could more fully comply with the OMB and GAO guidance and satisfy Congressional priorities by addressing the following areas:

- Major management challenges and high-risk areas.
- Enabling managers.
- Cross-cutting programs.
- Plan arrangement.

Major management challenges and high-risk areas

In 1997, after agencies filed their first draft strategic plans, the House Majority Leader sent a letter to the Director, OMB, faulting agencies for failing to provide statutorily required information and for remaining silent on management problems that have been previously identified by the GAO and Inspectors General. In August 1999, the Chairman, Senate Governmental Affairs Committee, asked the Secretary of the Treasury to report on the status of the high-risk areas and major management challenges previously identified by the GAO and the Treasury Inspector General.

*Major challenges are not
clearly addressed.*

The IRS has not specifically identified its major management challenges and high-risk areas or clearly presented the status of each. For example, one of the IRS' major challenges, as identified by the GAO since Fiscal Year 1990, has been receivables. Receivables collectively are the monies owed and not collected. In the latest GAO Major Performance and Accountability Challenges report,⁴ the GAO again lists Collecting Unpaid Taxes as an issue still facing the IRS. This has now been expanded to include delinquent taxes the IRS

⁴ *Major Management Challenges and Program Risks*
(GAO-01-254, dated January 2001).

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

is attempting to collect, taxes that are due but the IRS is not attempting to collect, and unidentified unpaid taxes.

The section of the IRS' draft strategic plan that might cover receivables is entitled, "Address Key Areas of Noncompliance," and it lists only the following (pages 53-55):

- Underreporting, nonfiling, and abusive trusts and passthroughs.
- Corporate tax shelters.
- Unpaid trust fund taxes.
- Erroneous Refunds and Earned Income Tax Credit compliance strategies.

Although some actions associated with the four items listed might, in fact, be a part of the IRS' plan to address the issue of receivables, readers of the plan are left to decide for themselves if and how the IRS plans to fully address this major management challenge.

The IRS can improve future strategic plans by addressing all major challenges identified by the GAO and the Inspectors General in the form of an appendix that refers readers to the specific sections of the plan containing the strategies and goals intended to address each challenge.

Enabling managers

Section 210.1 of OMB Circular No. A-11 requires, as one of six elements of strategic plans, a description of the means and strategies that will be used to achieve the goals and objectives. Overall, the IRS' plan meets this requirement.

However, one critical issue needs further amplification. In the introduction to the "Guiding Principles" section of the IRS' draft strategic plan (pages 37-41), the IRS lists expectations for all IRS executives, managers, and employees. In particular, page 38 of the plan provides for the following: "Enable managers to be accountable with the requisite knowledge, responsibility, and

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

Efforts to enhance managerial authority should be clearly outlined.

authority to take action.” Further, on the same page, the IRS provides that the lack of adequate managerial knowledge of the substance of a problem and/or lack of authority to solve a problem has frustrated taxpayers in the past.

The IRS does not clearly outline in the plan what steps it has taken or plans to take to ensure that managers have the authority they need to achieve results. One of the major strategies in the plan, “Recruit, Develop, Retain a Qualified Workforce,” addresses management training and related activities in a general sense. The IRS can improve its strategic plan by answering the question, “What steps is the agency taking to ensure that managers have the authority they need to achieve results?” as set out in GAO guidance (Section 3, page 30 of GAO/GGD-10.1.16., “Key Questions to Facilitate Congressional Review”).

The IRS should highlight actions taken or planned to give managers the authority they need to successfully perform their jobs. For example, the IRS has announced that, in the Appeals function, teams are working large cases and team leaders have been delegated settlement authority. It is expected that up to 80 percent of all cases worked by these groups will be settled directly without the need for managerial approval. Citing examples of this type in appropriate sections of the plan will demonstrate how the IRS is taking action to provide managers and staff with the authority needed to achieve results.

Cross-cutting programs

Section 210.5 (d) of OMB Circular A-11 requires each agency participating in cross-cutting programs to describe in its strategic plan the interface between its related programs and outline how individual agency efforts will support common endeavors. Cross-cutting programs are those that require the actions of several agencies to achieve a common purpose or objective.

The IRS included Appendix 4 entitled, “Cross-Agency Partnerships,” in its draft strategic plan and listed five

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

cross-agency coordination efforts. In the appendix the IRS recognized that the list was not comprehensive.

We agree with that assessment. For example, the Criminal Investigation (CI) function has cross-cutting programs with other agencies that are not shown in the list. The introduction to the appendix alludes to these programs, but the individual agencies the CI function interfaces with are not set out. The CI function participates in narcotics and money laundering investigations that involve other federal law enforcement agencies such as the United States (U.S.) Secret Service, the U.S. Customs Service, and the Drug Enforcement Agency. However, the draft strategic plan does not describe how the IRS' efforts will support common goals of reducing narcotics and money laundering crimes.

*Efforts to support
multi-agency program goals
should be better explained.*

Further, none of the five programs listed in Appendix 4 shows the required interface between the IRS' and the other agencies' related programs, and there is no outline of how individual agency efforts will support common endeavors. To meet the OMB Circular requirements, the IRS' plan should clearly set out all the major cross-cutting programs and its coordination efforts with other agencies.

Plan arrangement

Section 210.5 (f) of OMB Circular A-11 requires an agency to consider the prospective readership of its strategic plan when determining length, style, and understandability. This section further states that brevity and conciseness will likely characterize plans that are useful and widely read.

The plan should be arranged in a manner that would present a smoother flow of information. Strategic goals and objectives should be linked with the major strategies and prospective performance measures. Once these are linked, the reader will be given a clearer picture of how the IRS plans to achieve each facet of its strategic plan.

For example, one of the IRS' strategic goals is "Top quality service to each taxpayer," as listed on page 25 of

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

the draft strategic plan. However, there are no specific strategies or measures shown for this strategic goal. Instead, the next few pages in the plan describe the fact that the IRS has not defined specific measures for this goal and present some historical information on customer surveys conducted through 2000.

Users must read through the remaining pages of the plan to discern for themselves which of the 10 “Major Strategies” relates to top quality service to each taxpayer. One that relates is “Meet the Needs of Taxpayers,” and it is discussed on page 45 of the plan. Under this strategy, the IRS lists several specific actions such as, “Higher quality service through phone, Internet, and correspondence,” and “Expanding service through partnerships.” These are shown on pages 45 and 46 of the draft strategic plan. There are additional activities which also might affect quality service to each taxpayer including, “Reduce Taxpayer Burden,” “Broaden the Use of Electronic Interactions,” and “Meet the Special Needs of the Tax-Exempt Community.”

Goals and strategies should be grouped together.

Grouping goals and the strategies related to those goals would present a plan that is both easier to read and understand. We suggest that the IRS take a close look at the current GAO Strategic Plan. The GAO Plan groups high-level goals, strategic objectives related to those goals, and performance goals (activities) related to the strategic objectives. The Treasury’s Strategic Plan is arranged in a similar manner.

The IRS’ Strategic Planning and Budgeting staff informed us the strategic plan was written in its current form because many of the 10 major strategies affect 1 or more of the IRS strategic goals. In light of this, matching the major strategies to each strategic goal in an appendix would help readers of the report better understand how the IRS expects to address each goal.

Recommendations

To ensure that the IRS Strategic Plan provides stakeholders with the information required by the

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

GPRA, OMB and GAO guidance, and in response to Congressional priorities, we recommend that the Deputy Chief Financial Officer, Strategic Planning and Budgeting, consider improving subsequent revisions to the IRS Strategic Plan by:

1. Identifying all major management challenges and high-risk areas and clearly presenting the status of each.
2. Outlining the specific steps taken or planned to ensure that managers have all the authority they need to achieve results and at what level that authority has been granted.
3. Setting out all major cross-cutting programs, describing the interface between the IRS and other agencies, and detailing how the IRS' efforts will support the common endeavors.
4. Improving the readability of the plan by grouping together individual goals, objectives, strategies, and performance measures. Instead of completely re-writing the plan, the IRS should consider an appendix that matches the major strategies to each strategic goal.

Management's Response: IRS management agreed with our assessment that the plan met the requirements of the GPRA. They declined to make any of the recommended changes to the strategic plan but indicated they would consider our recommendations when making future revisions.

Office of Audit Comment: We continue to believe that the IRS Strategic Plan can be improved. While we acknowledge that tax administration is a complex, multi-faceted activity, a more direct presentation of major strategies, objectives, and performance measures for each goal will make the plan more meaningful to a wider audience.

The IRS has been producing bureau stand-alone strategic plans and annual performance plans for the last several years. When doing so in future years, the IRS

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

should ensure its public documents meet the needs of its external stakeholders, including the Congress. Further, as the largest bureau in the Department of the Treasury, the IRS has the opportunity to serve as a leader in fully disclosing the challenges it faces and explaining in a very clear and concise manner how it will address those issues.

While the IRS staff provided us a table of major challenges, the table was not specifically included in the IRS Strategic Plan. Also, the table of challenges did not directly link to any one of the IRS' three strategic goals nor consistently link to one of the major strategies shown in the January 2001 public version of the Strategic Plan.

We believe that it is to the IRS' benefit to enhance its plan, particularly as Congressional interest in GPRA issues remains high. This is illustrated by a Congressional request to have Inspectors General comment on performance measures and by a request that agency strategic plans be revised by September 2001 to reflect the current administration's new priorities. The Treasury Inspector General for Tax Administration will continue to assess the IRS' efforts to address implementation of GPRA requirements.

Conclusion

While the IRS Strategic Plan generally met the requirements of the GPRA and much of the guidance provided by the OMB and GAO, the IRS has the opportunity to make further improvements. More clearly addressing major management challenges and cross-cutting programs will address Congressional concerns and OMB guidance requirements. Explaining how managers will be enabled to meet the challenges they face, and more clearly aligning major strategies to organization goals, will help internal and external readers of the plan better understand how and what the IRS hopes to achieve over the next several years.

**Letter Report: Future Internal Revenue Service Strategic Plans
Should Provide More Information**

Appendix I

Major Contributors to This Report

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

John R. Wright, Director

Kevin Riley, Audit Manager

Michael Laird, Senior Auditor

Dave Robben, Senior Auditor

**Letter Report: Future Internal Revenue Service Strategic Plans
Should Provide More Information**

Appendix II

Report Distribution List

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**Letter Report: Future Internal Revenue Service Strategic Plans
Should Provide More Information**

Appendix III

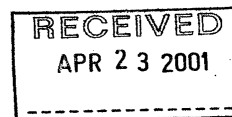
Management's Response to the Draft Report



CHIEF FINANCIAL OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

April 23, 2001



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

W. Todd Grams

Chief Financial Officer

SUBJECT:

Draft Letter Report – Future Internal Revenue Service Strategic Plans Should Provide More Information

Thank you for your comments on the FY 2000-2005 IRS Strategic Plan. I appreciate your comments and will consider them in future revisions. However, I am confident that our Strategic Plan meets or exceeds all requirements of the Government Performance and Results Act (GPRA) and OMB Circular A-11.

Our new Strategic Planning Process provides a formal, structured environment for establishing strategic direction, determining resource levels to support our priorities and evaluating performance results. In the strategic assessment phase, we identify trends, issues, and problems (TIPs) and modify our strategies, operating priorities, or improvement projects as appropriate. We also use results from this phase to develop the Commissioner's Planning Guidance, which we then use to develop the Organizational Unit Strategy and Program Plans. Our process was developed to facilitate meeting the requirements of both GPRA and OMB Circular A-11 including the strategic plan, annual performance plan, and annual performance reports.

Our Strategic Plan, based on the Strategic Assessments, Planning Guidance and Strategy and Program Plans, outlines the mission, goals, and strategies that drive the agency. Strategy and Program Plans along with the Strategic Plan provide the basis for developing the IRS Annual Performance Plan (APP). We published our first stand-alone APP for FY 2002 and sent it to you on April 9, 2001. The APP describes our major programs and the specific activities, resources, and performance measures that we will accomplish in the short term to achieve the strategic goals. We submit the IRS Strategic Plan and Annual Performance Plan to the Department of Treasury for use in developing the Treasury-wide Plan.

We reviewed your recommendations and appreciate the opportunity to provide feedback on them. On the following pages, we address your recommendations

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

2

and discuss how our strategic plan meets or exceeds the requirements of GPRA and OMB Circular A-11.

Major Management Challenges and High-Risk Areas. Identify all major management challenges and high-risk areas and clearly present the status of each. The Government Performance and Results Act and OMB Circular A-11 require all agencies (defined as cabinet departments) to develop strategic plans. As the IRS is not a cabinet-level department, we must only provide input into the Department of Treasury's strategic plan. As a result, we provided a table that cross-walked the IRS High-Risk Areas and Management Challenges with our strategies or modernization efforts and described how we are addressing these areas. We provided a copy of this table to your staff following our conference call on January 24, 2001. In addition, we specifically addressed management challenges and high-risk areas in our FY 2002 Annual Performance Plan (see page SA-9) and will incorporate these challenges into the program justifications in future plans.

Because of the importance of these challenges, we are integrating them into our overall strategic planning and budgeting process. In the strategic assessment phase, we incorporated these challenges into development of trends, issues, and problems (TIPs) for FY 2003 and beyond. These TIPs are the basis for developing or modifying our strategies and operating priorities. We discussed these challenges, including accounts receivable, at recent strategic assessment meetings.

Enabling Managers. Outline the specific steps taken or planned to ensure that managers have all the authority they need to achieve results and at what level that authority has been granted. Because the IRS Strategic Plan is strategic in nature, we did not describe the specific steps taken or planned to ensure that managers have all the authority they need to achieve results. We will forward this recommendation to the IRS Senior Management Team. We believe this recommendation is best applied in the Organization Unit Strategy and Program Plans. Workforce issues, management, and training are discussed in the Recruit, Develop, and Retain a Qualified Workforce chapter at the planning level. In addition, both the Organizational Unit's Strategy and Program Plans and their Business Plans address managers' expectations at a more detailed level.

Cross-Cutting Programs. Set out all major cross-cutting programs, describing the interface between the IRS and other agencies, and detailing how the IRS' efforts will support the common endeavors. We realize the list of cross-cutting programs is not comprehensive. We chose to report on only a few strategic-level programs in this Strategic Plan. We provided cross-cutting issues, including narcotics and money laundering to the Department of Treasury, which they included in their Strategic Plan. In addition, we have addressed cross-cutting issues at a more in-depth level in our Annual Performance Plan (see page SA-3). As required in OMB Circular A-11, we reviewed our partners' strategic plans and shared our draft Strategic Plan with

Letter Report: Future Internal Revenue Service Strategic Plans Should Provide More Information

3

them for review prior to publication. We incorporated comments received into our Strategic Plan as appropriate.

Plan Arrangement. Improve the readability of the plan by grouping together individual goals, objectives, strategies, and performance measures. Instead of completely rewriting the plan, the IRS should consider an appendix that matches the major strategies to each strategic goal. We developed a strategic planning framework that shows the relationships between the mission, goals, strategies, and modernization programs that we must develop to address the scope and complexities of tax administration. Our strategies support all our goals. An appendix is one way of bringing together related elements. However, we believe that displaying the IRS strategies and goals in a one-to-one relationship would not be useful to the reader. OMB Circular A-11 says that "No specific format is prescribed for your strategic plan." We believe the circular provides flexibility in formatting requirements to accommodate agencies that have broad, expansive program management responsibilities.

If you have any questions about our comments, please call Kathleen Turco at (202) 622-8770.